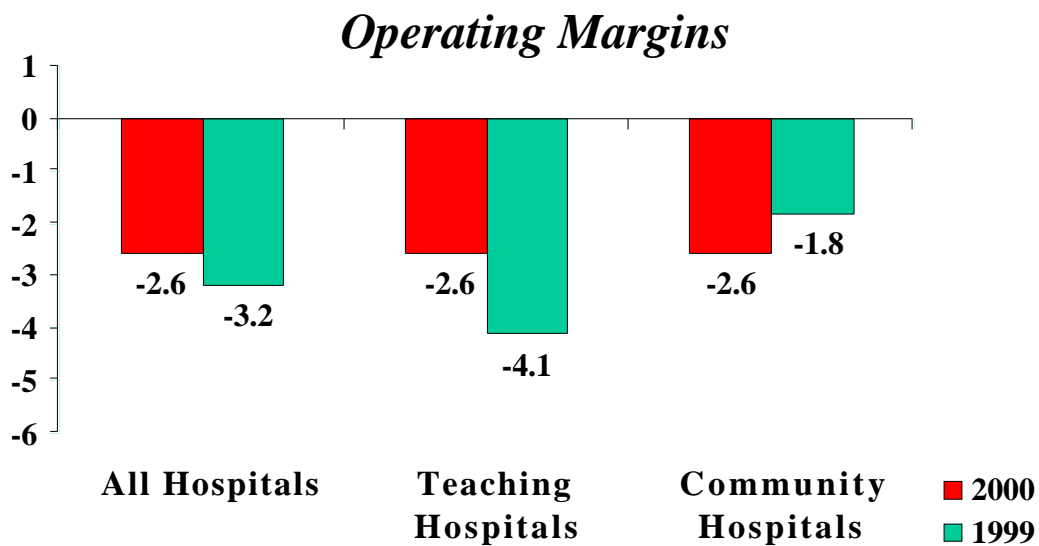


Update on the Financial Condition of Hospitals October 16, 2000

- Findings of Continued Financial Difficulty
- No Sign of Solution Developing Within the System
- Suggestions for State-Level Action

Financial Conditions of Hospitals in The Commonwealth of Massachusetts

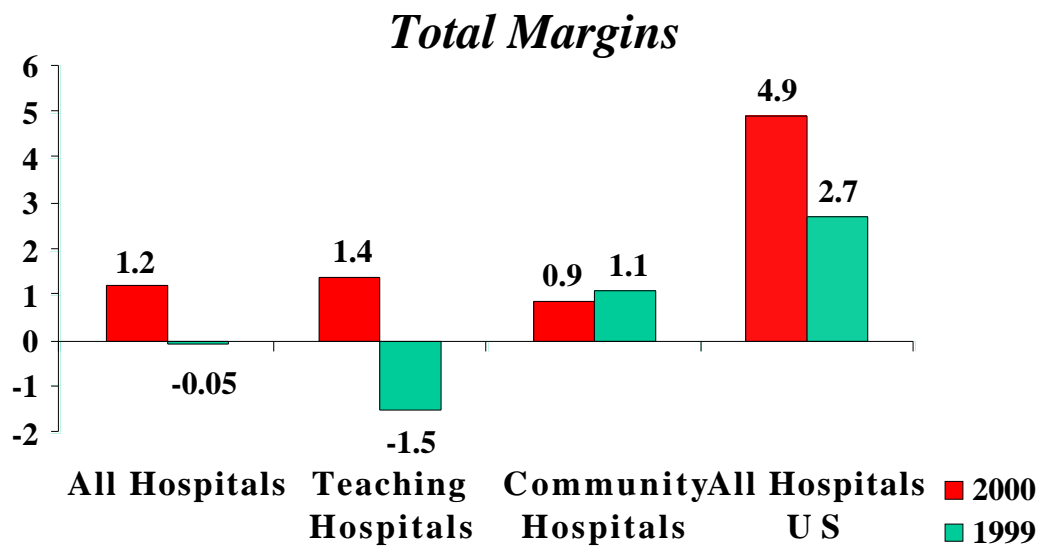
Comparison of 2nd Quarter 2000 versus 1999



Source: Provided by the Massachusetts Hospital Association

Financial Conditions of Hospitals in The Commonwealth of Massachusetts

Comparison of 2nd Quarter 2000 versus 1999

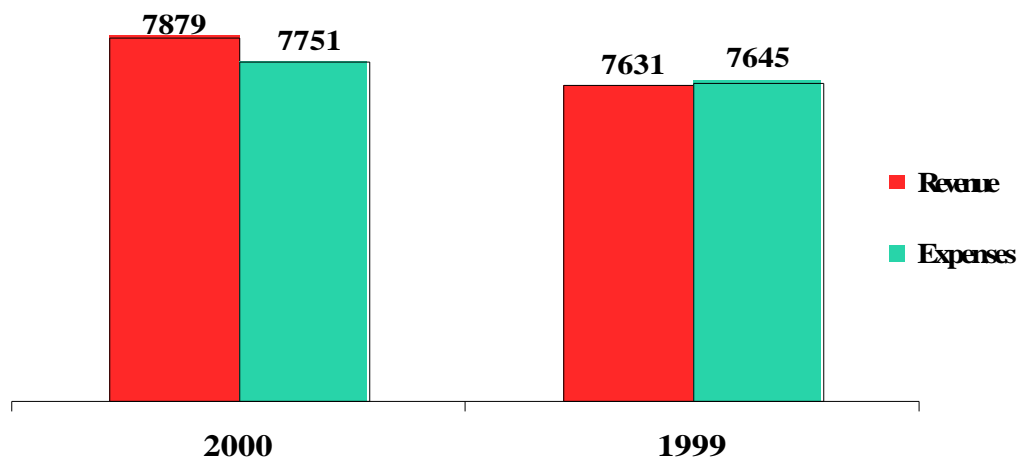


Source: Provided by the Massachusetts Hospital Association

Why Have Hospital Margins Changed From Last Year

Comparison of 2nd Quarter 2000 versus 1999

Total Revenue/Total Expenses Per Patient
All Hospitals

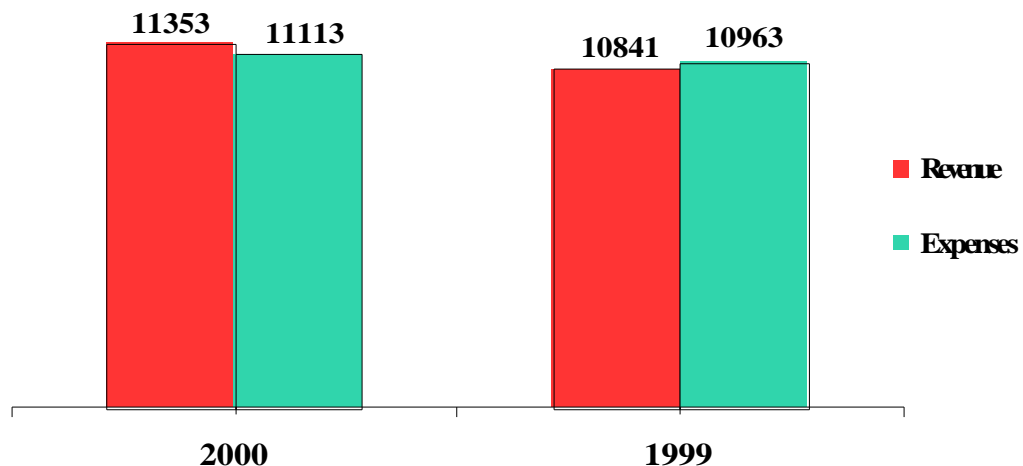


Source: Provided by the Massachusetts Hospital Association

Why Have Hospital Margins Changed From Last Year

Comparison of 2nd Quarter 2000 versus 1999

Total Revenue/Total Expenses Per Patient
Teaching Hospitals

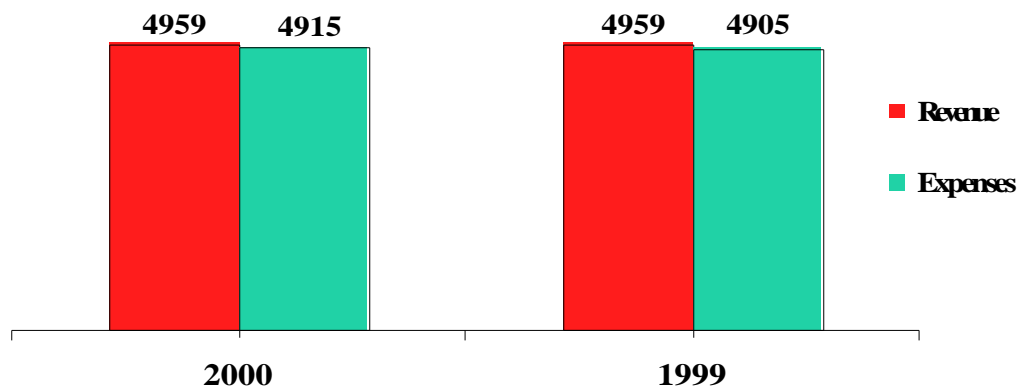


Source: Provided by the Massachusetts Hospital Association

Why Have Hospital Margins Changed From Last Year

Comparison of 2nd Quarter 2000 versus 1999

Total Revenue/Total Expenses Per Patient
Community Hospitals



Source: Provided by the Massachusetts Hospital Association

Findings of Continued Financial Difficulty

- **Despite some evidence that conditions have improved slightly, overall financial position of hospitals is still negative and is quite serious for some institutions.**
- **Insurers have raised premiums, but there is no hard data demonstrating that much of the increase has been passed on to hospitals.**
- **The federal government has not enacted a substantial “BBA Relief” package.**
- **Despite additional funds set aside in last several months, Medicaid rates remain overall well below cost.**
- **Expenses per patient have grown more rapidly in the last year than in the previous several years.**

No Sign of Solution Developing within the System

- **There is no evidence that in the short run better business judgment by hospital administrators alone will resolve the situation.**
- **Despite widespread financial stress, spending on health services in Massachusetts is still higher than the national average; therefore, adding more money should be done prudently.**
- **Although there is no evidence that there has been a deterioration in access to or quality of services, there is some risk that such a deterioration could develop without intervention.**

Suggestions for State-Level Action:

- **Create a Commission to Improve the Financial Stability and Efficiency of the Health System of the Commonwealth**
- **Create a Short-Term Financial Stabilization Plan**

Standing Commission On the Health System:

- Standing Independent Commission, 3-5 members, to analyze the health care system and to make recommendations to the Administration, the Legislature and the public. Models: MedPAC, Maryland, New York
- Small staff, but authority to draw on state agency analytical capacity and to require additional reporting of health care organizations and some funding to commission private analyses.

Standing Commission On the Health System:

- Functions could include:
 - **Monitoring and reporting on the structure of the system and its effectiveness in preserving access to quality services.**
 - **Recommending appropriate ranges of inflation factors to be used by payers in calculating periodic increases.**

Standing Commission On the Health System:

- Functions could include:
 - **Recommending ways of maintaining access to services over time and under variable circumstances, contingencies.**
 - **Recommending actions to restructure the system or change utilization of services to make the system overall more efficient and, if appropriate, bring health spending to a range comparable to other areas of the country.**

Financial Stabilization Plan:

- The state, the private sector, and hospitals themselves must all be part of the solution.
- Medicaid rate evaluation should be completed and acted upon within the next budget cycle.

Financial Stabilization Plan:

- Special Fund for Distressed Hospitals (potentially other providers?) for use in the short term as needed to prevent loss of access to service or reduction in quality; not a long term solution.
 - **Only for hospitals that show specific reductions in access or quality will result absent assistance;**
 - **Only with detailed accountability for expenditures and improved financial performance.**

Financial Stabilization Plan:

- The distressed Hospital Fund to be financed by the state and private payers.
- Create a hospital reinsurance revolving loan fund by assessing all hospitals in the commonwealth.